

Memorandum



To: **MARKETS COMMITTEE OF THE BOARD OF DIRECTORS of the Independent Electricity System Operator**

Presenter: Michael Lyle, Vice President, Legal Resources and Corporate Governance and
Chair, IESO Technical Panel

Date: August 23, 2022

Re: Market Renewal Program: Market Power Mitigation (Market Rule Amendments MR-00455-R00, MR-00461-R01)

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Purpose of Item: Recommendation for Provisional Approval to the Board

Executive Summary:

The IESO is seeking a provisional approval from the IESO Board on proposed market rule amendments to codify the market power mitigation (MPM) framework for the Market Renewal Program (MRP). At the March 22, 2022 Technical Panel meeting, a majority of the Technical Panel voted in favour of provisionally recommending the amendment proposals to the IESO Board (9 in favour, 5 abstained).

Significant Issues, Risks and Opportunities:

The five Technical Panel members who abstained from the provisional vote to recommend the amendment proposals to the IESO Board were the members representing renewable generators, demand response, energy storage, and the two generator representatives.

Panel member rationale for the abstentions can be summarized as follows:

- Uncertainty with respect to how the proposed MPM rules will interact with MRP market rule batches that are still under development, including the market operations related batch and calculation engines batch;

- Supplier concerns about price formation, scheduling and dispatch uncertainty in the renewed market generally, and how MPM impacts and contributes to that uncertainty;
- Insufficiency of the independent review process (IRP) and a need to see supplemental market manual content on how all aspects of the IRP will be operationalized;
- Significant effort and burden required on market participants to determine reference levels and reference quantities.

Background:

MPM is expected to be important to the realization of the quantified benefits discussed in the business case:

- More efficient unit commitment relies on assessing resource costs, not just submitted offers;
- Locational pricing incenting increased resource competition relies on market participants lowering their submitted offers. Absent MPM, market participants may have incentives to raise offers when they have market power, not lower them.

The use of ex ante, automated mitigation tools is standard in North American electricity markets as it supports price fidelity and is a key attribute of consumer protection for electricity markets.

The proposed market rule amendments to codify the MRP's MPM framework include the following:

- Determination of reference levels and reference quantities for dispatchable resources;
- Designation of constrained areas, uncompetitive intertie zones and global market power reference intertie zones;
- Ex-post mitigation for physical withholding;
- Ex-post mitigation for economic withholding on uncompetitive interties;
- Ex-post mitigation for make-whole payment impact on uncompetitive interties; and
- Amendments to defined terms to support the MPM amendments.

This is the second of six core batches of MRP rule amendments. A formal recommendation to the IESO Board with respect to the content in all of the batches will be requested as part of the sixth batch of rule amendments.

Proposal and Analysis

The IESO received 269 comments from stakeholders in total on the proposed MPM market rule amendments, with more than half coming from the Technical Panel.

Four sets of written comments were received from Ontario Power Generation (OPG), Evolugen, Forrest Pengra, and the Association of Power Producers of Ontario (APPrO) in response to the Technical Panel's first call for stakeholder comments. Two sets of written comments were received from OPG and APPrO in response to the Technical Panel's second call for stakeholder comments.

The majority of comments were requests for clarification (175), followed by editorial (41), modifications (20), additions (17), requests for details on forthcoming market manual content (11), and updates to a defined term (5). A summary of key stakeholder concerns by resource type, and IESO responses can be found in the attached Stakeholder feedback summary, stakeholder engagement and Technical Panel document.

Next Steps / Implementation:

I recommend that the Board accept the majority vote and provisional recommendation of the Technical Panel to provisionally approve market rule amendments MR-00455-R00 and MR-00461-R01: Market Renewal Program - Market Power Mitigation.

Requested Committee Resolution:

The Committee is asked to pass the following resolution:

CONCERNING MR-00455-R00: Market Renewal Program: Market Power Mitigation and MR-00461-R01: Market Power Mitigation: Second Batch Definitions, which are market rule amendments that will enable the market power mitigation framework for the Market Renewal Program:

- a) **WHEREAS** these proposals, as part of the broader Market Renewal Program, are intended to increase the efficiency of Ontario's electricity markets;
- b) **WHEREAS** the IESO engaged with the Technical Panel and incorporated their suggestions into the proposal; and
- c) **WHEREAS** the Technical Panel voted to provisionally recommend MR-00455-R00 and MR-00461-R01 for provisional approval by the IESO Board;

BE IT RESOLVED THAT the Markets Committee of the IESO Board provisionally recommends that the IESO Board of Directors provisionally approve MR-00455-R00 and MR-00461-R01.

BE IT FURTHER RESOLVED THAT the Markets Committee of the IESO Board reserve its formal recommendation of MR-00455-R00 and MR-00461-R01, pending its review of the full set of Market Renewal Program market rule amendments and receipt of formal recommendations from the Technical Panel.

Michael Lyle

Cc: IESO Records

Encls.

a. Market Rule Amendment Proposal forms

- MR-00455-R00: Market Power Mitigation
- MR-00461-R01: Market Power Mitigation – Second Batch Definitions

b. Technical Panel Materials

- i. Memo to Technical Panel from IESO staff, dated March 15, 2022
- ii. TP member Rationale, dated March 22, 2022

c. Stakeholder feedback summary, stakeholder engagement and Technical Panel

d. Consumer Impact Assessment

e. Draft Board Resolution